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ABSTRACT

This paper is the fifth in a series of yearly efforts to identify the top 10 public policy issues facing higher education. Each of the issues is presented, first as a brief summary and then discussed in some depth; each also includes a list of information sources. The issues identified are: (1) teacher preparation and the K-12 relationship (the increasing role of higher education in improving K-12 instruction); (2) affordability vs. access (the increasing problem of access for less affluent students); (3) cost and price of higher education (increasing public concern about college costs); (4) implementation of recent federal legislation (implementation concerns of major 1998 legislation); (5) federal support for university research (both the level of funding and governing policies); (6) diversity in admissions (problems concerning affirmative action in admissions); (7) information technology and new competition (technology and for-profit higher education providers); (8) economic and financial trends (the need to prepare for a possible recession); (9)creating a sustainable society and future (the role of higher education in sustaining the natural resource base and protecting the environment); and (10) rethinking public higher education systems (ways to encourage efficiency, productivity, and accountability while keeping costs reasonable). (DB)

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Ten Public Policy Issues for Higher Education in 1999 and 2000

AGB Public Policy Paper Series
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From time to time, AGB provides its members with thoughtful perspectives on important state and federal public policy issues affecting higher education. Some titles in the series are commissioned by AGB; others are the work of reputable individuals or groups whose work comes to our attention. This series of publications is intended to inform debate and discussion, not to represent or imply endorsement by the association or its members.

AGB provides member chief executives and board chairs with complimentary copies of Public Policy Series papers; other AGB members as well as some federal and state officials also receive appropriate papers in the series. Individuals may purchase additional copies at a nominal charge by calling or writing to AGB. The association grants permission to its members to photocopy and distribute this paper. Copyright © 1999 Association of Governing Boards of Universities and Colleges. All rights reserved.

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INTRODUCTION

This paper is the fifth in AGB's "Top Public Policy Issues" series. It highlights the major state and federal public-policy issues that will affect higher education through the year 2000. Like the fourth paper, which AGB published in spring 1997, this paper covers a two-year period in the recognition that a biennium provides an appropriate time frame for issues to mature, for policymakers to debate them, and for our analysts to gauge whether they merit a place on the list.

The purpose of these papers is to provide board members and other academic leaders with a brief description of the most critical public-policy issues as well as a crystal-ball look at how these issues may affect their institutions. As in the previous papers in the series, the ten issues described here emanate from either the federal or state governments—or both. Their order is not indicative of their importance, and they will, of course, affect individual colleges and universities in different ways.

The Road Ahead. For the next two years, higher education is likely to remain a major focus of legislators and governors. The advent of new technologies, particularly in distance learning, is making state boundaries increasingly irrelevant and making it more difficult to plan, manage, and coordinate higher education. Yet every state needs its public and private colleges and universities to address pressing needs and priorities. Policymakers want higher education institutions to conduct research and provide expertise. States need new teachers, health care professionals, and a well-educated workforce.

At the federal level, the focus will shift to elementary and secondary education over the next two years, especially as Congress considers revisions to the major federal legislation in this area. This will be in contrast to 1997 and 1998, when higher education was in the limelight. During that time, Congress amended the Higher Education Act and created a system of tuition tax credits. But in the coming two years, federal funding priorities for research and student assistance again will be critical. Will hard-won gains in the reauthorization process mean greater funding in the annual appropriations process?

Although the Clinton administration's fiscal-year 2000 request for higher education programs was less than many advocates had hoped for in a time of budget surpluses, the administration has paid considerable attention to higher education issues and has attempted to address the needs of middle-class voters. We also have seen a remarkable continuity of leadership in the Education Department.

In both the Congress and state legislatures, it remains to be seen whether politics or sensible public policy will prevail on many higher education issues. Fueled by constant media attention and reinforced by sophisticated polling data, lawmakers increasingly seem to succumb to political expediency at the expense of the sensible legislating necessary to address true national education needs. For example, will candidates and elected leaders continue to cater to middle-class voters by touting prepaid tuition plans and merit scholarships at the expense of funds to expand existing programs geared to students from low-

income families? Or will they find the political will and dollars to do both? Interestingly, for now at least, strict ideologues appear to be diminishing as a force in education policymaking.

There is every reason to believe that education will remain near the top of the political agenda and be a campaign issue in the 2000 elections, as such issues as school safety and teacher quality continue to capture public attention. Higher education no doubt will come in for its share of attention during the campaign. Since public concern about higher education focuses chiefly on cost, however, such attention may be a mixed blessing.

Several critical national issues invariably will affect higher education in the next two years: Will the national economy continue its strong performance, or will the seemingly inevitable downturn come sooner rather than later (resulting in funding cuts, reduced endowment returns, and greater pressure on students and families)? How will competition among institutions and from new providers affect how higher education is delivered to different segments of the student population? Will the public's preoccupation with cost result in direct government intervention? Will federal and state policies continue to emphasize affordability over access, further diminishing access for the neediest students? Will colleges and universities continue to retain the freedom to make admissions decisions considering a range of factors consistent with their missions?

How these issues are resolved will help determine the future of higher education in our country. The purpose of the "Ten Public Policy Issues" series is to anticipate at least some of these questions and provide a framework for informed discussions.

Acknowledgements. Funding for this paper comes in part from a generous grant from the Hassenfeld Family Foundation, which enables AGB to provide copies to its 32,000 members. We gratefully acknowledge the support and leadership of **Alan G. Hassenfeld** of Hasbro, Inc. for making this publication possible in years past.

The paper's principal authors are **Arthur M. Hauptman**, an independent higher education consultant and analyst in Arlington, Va.; **A. Clayton Spencer,** associate vice president for higher education policy at Harvard University; and **Richard Novak**, AGB director of public sector programs. Additional contributors include **Edward Abrahams**, executive director of the Pennsylvania Biotechnology Association, who teaches public policy at the University of Pennsylvania's Washington Semester Program; **Kati Haycock**, director of the Education Trust in Washington, D.C.; and **James R. Mingle**, executive director of the State Higher Education Executive Officers, in Denver. They deserve our thanks for a job well done, along with **Daniel J. Levin,** AGB's vice president for publications, who coordinated the project and edited their work, and **Jill Campbell**, who produced the document.

AGB has received positive responses to these papers; we hope this edition continues to serve your needs. As always, we welcome reader response and suggestions for improvement. Is this publication useful to you and your colleagues? Should AGB continue to undertake this initiative in future years? Please complete the form at the end of this paper and fax it back to us. Your feedback always helps us improve our work.

Richard T. Ingram
President, AGB

Ten Public Policy Issues For Higher Education in 1999 and 2000

1. **Teacher Prep and the K-12 Relationship**
   There is a growing national consensus that higher education can do more to advance K-12 instruction by strengthening teacher-preparation programs and by giving K-12 standards and examinations consideration in the college-admission process.

2. **Affordability vs. Access**
   As federal and state policies focus on providing affordable education to students from middle-income and high-income families, the goal of access for students of lesser means seems to be losing ground.

3. **Cost and Price of Higher Education**
   Policymakers across the political spectrum are seeking ways to address public concern about college costs.

4. **Implementation of Recent Federal Legislation**
   With Congress having enacted several pieces of higher education legislation in 1998, the focus will now shift to how they are implemented.

5. **Federal Support for University Research**
   Congress will consider the level of funding for university-based research as well as the policies that govern that funding.

6. **Diversity in Admissions**
   Colleges and universities face political and legal challenges to their ability to consider race or ethnicity as factors in the admissions process.

7. **Information Technology and New Competition**
   Increasingly sophisticated uses of information technology will force public and private institutions to respond to competition from for-profit higher education providers and from their peers.

8. **Economic and Financial Trends**
   Although a robust economy has produced prosperity for higher education in the late 1990s, few states and institutions seem prepared for the possibility of a recession and its consequences.

9. **Creating a Sustainable Society and Future**
   Higher education will be expected to play a stronger role in state and federal efforts to sustain the nation's natural resource base and protect the environment.

10. **Rethinking Public Higher Education Systems**
    States will continue to be interested in the governance and finance of their public higher education systems and seek ways to encourage efficiency, productivity, and accountability while keeping costs reasonable.

1. Teacher Prep and the K-12 Relationship

Issue at a Glance

There is a growing national consensus that higher education can do more to advance K-12 instruction by strengthening teacher-preparation programs and by giving K-12 standards and examinations consideration in the college-admission process.

- **Concerns about the supply and quality of teachers will intensify.**
- **Institutions that prepare teachers will face new accountability requirements.**
- **Colleges and universities increasingly will be encouraged to consider the new K-12 standards in their admissions processes.**

Despite the fact that policymakers have spent more than 15 years trying to improve academic performance in the nation's public schools, test scores show that students still are not making the grade. Large numbers of students continue to graduate from high school without the skills for either college or work, and those who enter college often need extensive remediation. Up to 78 percent of all U.S. institutions now offer remedial-education programs, which cost the nation about $2 billion annually, according to separate studies by the Institute for Higher Education Policy and the National Center for Education Statistics.

Lawmakers in Washington, anxious to be perceived as being responsive to the concerns of how students are prepared for the 21st century, are proposing an unprecedented number of fixes, some thoughtful, others well intentioned. While the experts agree that a "silver bullet" does not exist, there is general agreement that the most promising remedies for the flat test scores and poor academic performances revolve around improving teacher quality and increasing the incentives for student effort. In these two areas, higher education has a role.

• Concerns about the supply and quality of teachers will intensify.

If projections hold true, the nation will need some 2.2 million new teachers within the decade to address a projected increase of 4 million new elementary school students and 13-17 million new high school students. Coupled with retirements and attrition in the teaching profession, school districts in nearly every state will face shortages. The demand for new teachers will be uneven but especially acute in the South and West and in urban and rural areas. Look for states to offer more incentives to colleges and universities to recruit students into teaching and for the Clinton administration to continue to press for funding for 100,000 new teachers, as the Higher Education Act authorizes.

In the past, pressure to increase the supply of teachers has caused institutions to lower the standards for entry into the profession. This time, policymakers are not content to leave definitions of quality to individual colleges and universities. Press commentaries regularly focus on teachers who are unqualified or who fail tests their students are expected to pass. In some large urban school districts, college graduates with no teacher training are filling vacant teaching positions. Armed with new research detailing the critical importance of teacher quality to student achievement, policymakers are pressing colleges and universities to improve their teacher-education programs.

• Institutions that prepare teachers face new accountability requirements.

In the last two years, several states have established systems that hold colleges and universities accountable for producing teachers who can pass state licensure exams. Typically, these systems are designed to withdraw state support from teacher-education programs where graduates fail relevant exams at a rate of up to 30 percent.

Impressed with this approach, Congress included in the Higher Education Act provisions requiring all states to adopt similar accountability systems by fall

2000. Moreover, all higher education institutions that prepare teachers will have to publicize widely the pass rates of their graduates on licensure exams, and states will have to identify publicly low performing teacher-preparation programs. If states were to withdraw aid from such programs, the federal government would follow suit by ending all federal aid for students studying to be teachers at those institutions.

• Colleges and universities increasingly will be encouraged to consider K-12 standards in their admissions processes.

At the request of governors, business leaders, and the federal government, most states have adopted new standards specifying what students should know and be able to demonstrate at benchmark grade levels. They also have adopted new tests to measure whether students meet those standards. The basic idea is to hold schools accountable for getting students to meet the higher standards.

Advocates for higher standards in elementary and secondary education believe that unless colleges and universities reinforce the new K-12 standards and examinations by giving them weight in the admissions or placement processes, students will lack sufficient incentive to work harder in school, test scores will remain flat, and the movement toward higher standards will crumble.

This movement toward higher standards could take some time before it is fully entrenched in all schools. In some states, higher education was not even at the table when the standards and assessments were developed. Policymakers at the state and national levels can be expected to give this matter serious attention during the coming two years, particularly during the process of reauthorizing the Elementary and Secondary Education Act.

For more information on this issue:

Doing What Matters Most. National Commission on Teaching and America's Future, 1998.

"Good Teaching Matters: How Well-Qualified Teachers Can Close the Gap." *Education Trust, Thinking K-16*, Summer 1998.

Haycock, Kati. "Working Together to Improve Student Achievement, Kindergarten Through College." *Educational Record*, Spring 1997.

Rodriguez, Ester M. *Preparing Quality Teachers: Issues and Trends in the States*. Denver: State Higher Education Executive Officers, July 1998.

2. Affordability vs. Access

Issue at a Glance

As federal and state policies focus on providing affordable education to students from middle-income and high-income families, the goal of access for students of lesser means seems to be losing ground.

- **At the federal level, tuition tax credits and other tax benefits for college savings may reduce funding for federal programs geared toward lower income students.**
- **Many states are developing financial-aid programs for students from middle-class families, and this could detract attention from programs for needy students.**
- **The next several years will indicate how states react to the establishment of tuition tax credits legislation on the federal level.**

Persistent hikes in tuition and fees at public and private institutions have heightened the fears of parents that college may no longer be affordable. To allay those fears, federal and state lawmakers have responded with a spate of initiatives designed to help students from middle-income and high-income families. This increased focus on the middle class has led critics to wonder whether low-income students, those with the greatest financial need and the least political clout, will be shut out from the higher education arena altogether.

Although the college participation rates of students from lower income families have doubled over the past 25 years, the rate of participation by students from wealthier families also has increased. The primary thrust of tuition tax credit legislation enacted in 1997 was to help middle-class students. These tax credits mainly will benefit students from families with incomes between $30,000 and $80,000. Students from families with incomes less than $30,000 will not benefit as much because their parents' federal income-tax liability will be lower than the amount of the tax credit.

• At the federal level, tuition tax credits and other tax benefits for college savings may reduce funding for federal programs geared toward lower income students.

Republicans in Congress have proposed additional money for Pell Grants for fiscal year 2000. This allows them to claim that they, not the Clinton administration, are the advocates for lower income students. The affordability-versus-access debate will only intensify in the future, particularly if federal budgets for student aid remain tight and tax breaks for middle-income and well-to-do families are expanded.

President Clinton made tuition tax credits for education one of the centerpiece proposals for his reelection campaign and in his negotiations with Congress over balanced budget legislation in 1997. Congress significantly modified the president's proposal, but the plan's basic elements have survived:

- HOPE Scholarship tax credits provide students—enrolled at least part-time in the first two years of college—up to $1,500 in tax credits annually.
- The Lifetime Learning Tax Credit provides students—enrolled in at least one undergraduate, graduate, or professional school course—with a tax credit of up to $1,000 for 20 percent of their tuition costs.

In addition to tax credits, the 1997 legislation included incentives to encourage more college savings. One such program, Education Savings Accounts, allows families to deposit up to $500 per year into an account that accumulates tax-free if used for college. Also included are provisions allowing withdrawal from existing IRAs without penalty if the proceeds are used for college expenses. Congress also is considering further liberalizing tax benefits for middle-income and high-income families.

• Many states are developing financial-aid programs for students from middle-class families, and this could detract attention from programs for needy students.

State policymakers, like their federal counterparts, have bowed to political pressure to respond to the needs of the middle class. Federal policies have focused on tax benefits, but state approaches vary. These include some of the following:

• The HOPE Scholarship program in Georgia provides scholarships for all Georgia high school graduates who achieve at least a B average. The program served as a model for the federal tax credit of the same name. Florida, South Carolina, and other states have passed or are considering similar programs.

• To complement their need-based aid programs, many states have established small, targeted aid programs that are not based on financial need. More than half of the states now have at least one non-need-based aid program; collectively, these programs account for at least 15 percent of all state spending on student financial aid.

• Interest in college savings and prepaid tuition plans waned during the early 1990s but are again on the rise because of concerns over affordability. Efforts to improve these programs have been spurred, in part, by provisions in the 1997 federal legislation that authorized tuition tax credits. As many as 20 states now have a prepaid tuition plan of some sort, and an equal number have college savings plans that do not entail a guaranteed tuition level.

• The next several years will indicate how states and institutions react to the establishment of tuition tax credits at the federal level.

States might react to the enactment of the tuition tax credits and other savings provisions in a number of ways. More than half the states conform with the federal tax laws, meaning that recipients of the federal tax credits in those states will find their state tax liability reduced because of receipt of the federal benefits. A few states apparently are considering tax breaks of their own, which would further add to the benefits accruing to the middle class.

On the other hand, some states are considering adjusting eligibility for their financial-aid programs in ways that would reduce the amount of financial aid received by students and families benefiting from the federal tax credits. The most likely response of most states, however, will be no response at all, thus allowing families to collect their new federal tax benefits without sacrificing eligibility for state student-aid benefits.

Most colleges and universities will go through the same calculus as the states in deciding how to react to the new federal benefits. Should they reduce the aid they provide to their students to account for the federal tax credits, or should they ignore these federal benefits in putting together their own aid packages? Federal officials have urged institutions not to consider the tax credits when packaging aid; they fear doing so would blunt the effect of the federal credits. Most institutions seem willing to take this advice, at least partly because students receive aid before they enroll and tax credits after they complete their year of studies.

For more information on this issue:

Federal Tuition Tax Credits and State Higher Education Policy. National Center for Public Policy and Higher Education, December 1998.

Hauptman, Arthur and Lois Rice. *Coordinating Financial Aid with Tuition Tax Benefits*. Brookings Policy Brief, no. 27, December 1997.

3. Cost and Price of Higher Education

Issue at a Glance

Policymakers across the political spectrum are seeking ways to address public concern about college costs.

- **The National Commission on the Cost of Higher Education has taken federal scrutiny of the core operations of colleges and universities to a higher level.**
- **The U.S. Department of Education will conduct a comprehensive study on college costs and deliver it to Congress in 2002.**
- **Colleges and universities should expect political pressure on the tuition issue to continue.**

Although most Americans believe a college education is crucially important, most also believe colleges do not charge a fair price, cannot control costs, and could cut tuition without lowering academic quality. Indeed, 80 percent of Americans think colleges and universities make a profit. Public skepticism is fueled by annual tuition increases above the rate of inflation and by press accounts that focus on the tuition rates of the highest priced institutions.

Given the centrality of the college-cost issue to middle-class voters, politicians are under pressure to act. Traditional student-aid programs that focus on access for lower income students do not assuage the middle class, and the tuition tax credits and other benefits directed at saving or paying for education are regarded as vulnerable if colleges continue to raise prices. Consequently, Congress is asking tougher questions about what drives college costs and how colleges and universities set their prices.

• The National Commission on the Cost of Higher Education has taken federal scrutiny of the core operations of colleges and universities to a higher level.

In 1997, Congress established the National Commission on the Cost of Higher Education with instructions to issue a report within six months. Its charge was to make higher education finance and student aid more understandable to the public, to explain the sharp increase in tuition compared with other commodities and services over the preceding 15 years, and to recommend measures to contain rising costs. The resulting inquiry ranged beyond traditional federal concerns with access and student aid into the core operations of colleges and universities. Among other things, the commission recommended that Congress call for more comprehensive and consistent reporting of cost data by colleges and universities to the federal government.

In analyzing the reason for tuition increases, the commission was directed to look at the impact of such factors as institutional aid and tuition discounting, federal student aid, trends in administrative staffing and salaries, faculty work load and compensation, capital costs (including technology), and federal and state regulations. The commission also was directed to identify "innovative methods of reducing or stabilizing tuition" as well as mechanisms for "more timely and widespread distribution of data on tuition trends and other costs of operating colleges and universities."

The commission focused on (1) documenting trends in overall cost and price from available data; (2) developing a set of uniform definitions of "cost" (the amount the institution spends to educate each student), "price" (the amount of tuition it charges), and "subsidy" (the difference between cost and price); and (3) calling for greater "transparency" by institutions in describing where they get their money and how they spend it.

• The U.S. Department of Education will conduct a comprehensive study on college costs and deliver it to Congress in 2002.

In response to the commission's recommendations for clearer definitions and further study, Congress included in the Higher Education Amendments

of 1998 a requirement that the U.S. Department of Education collect data on specific components of college costs, measure these costs according to the methodology specified by the cost commission, and explore the relationship between costs and tuition and fees. The study will culminate in a report to Congress by September 30, 2002.

The study will be conducted under the supervision of the National Center for Education Statistics (NCES) and will review data from 800 institutions selected by NCES—200 public two-year institutions, 300 public four-year institutions, and 300 independent institutions. Data will be collected for three academic years (1997, 1998, and 1999), in part through on-site visits conducted by teams of accountants between March and May 2000. The scope of the NCES study is quite broad, encompassing the following elements: the change in tuition and fees compared with the Consumer Price Index and other appropriate measures of inflation; faculty salaries and benefits; administrative salaries, benefits, and expenses; academic support services; research; operations and maintenance; and institutional expenditures for construction and technology.

• Colleges and universities should expect political pressure on the tuition issue to continue.

Although the cost commission itself had a largely benign impact, its recommendations represent a first step along the way to a potentially far greater federal role in the area of college cost and financing. When the NCES study is finished in 2002, the government will have a database of standardized information across a wide range of college and university operations. Meanwhile, if tuition continues to rise year after year, the pressure will mount on politicians to "do something" to control costs. With a standardized data set available, it will not be difficult to create a "reasonable cost of undergraduate education" as a basis for financial-aid awards on the model of Medicare reimbursement. Nor will it be a reach to condition the availability of student aid on tuition increases limited to the rate of inflation or some other number deemed "reasonable."

State policymakers and special review commissions are likely to continue to ask about costs and affordability. A few states may take strong action. Virginia's governor was able to win a 20 percent decrease in state college tuition while restoring the lost revenue with appropriations. The governor's blue-ribbon commission will likely make further recommendations to make colleges more efficient. Other states will use budget incentives or the bully pulpit to keep tuition increases at or below the rate of inflation.

For more information on this issue:

Hauptman, Arthur and Cathy Krop. *Federal Student Aid and Tuition Growth: Examining the Relationship.* Council for Aid to Education, 1998.

"Straight Talk About College Costs and Prices." Report of the National Commission on the Cost of Higher Education, 1998.

"The Feds Tackle College Costs." *Trusteeship,* November/December 1997.

"Trends in College Pricing." The College Board, 1998.

Winston, Gordon. "A Guide to Measuring College Costs." Williams Project on the Economics of Higher Education, DP-45, November 1997.

4. Implementation of Recent Federal Legislation

Issue at a Glance

With Congress having enacted several pieces of higher education legislation in 1998, the focus will now shift to how they are implemented.

- **The Education Department will implement new initiatives to expand early intervention, stimulate distance learning, and improve teacher quality.**
- **Federal officials working with the lending community will consider changes to the system of setting student interest rates and lender yields in federal student-loan programs.**
- **Some federal regulations to implement legislation enacted during the 105th Congress will be produced through a process called "negotiated rulemaking."**

Over the last two years, Congress has focused a great deal of attention on higher education. It created tuition tax credits and other tax incentives for college savings in 1997 and reauthorized the Higher Education Act in 1998. The federal role will shift over the next two years to implementing the many provisions of these major pieces of legislation.

The 1998 reauthorization created a new performance-based organization within the Department of Education designed to improve the delivery of federal student aid. It also included a series of new initiatives on early intervention, distance learning, and teacher quality that will require regulations and other implementation procedures.

• The Education Department will implement new initiatives for expanding early intervention, stimulating distance learning, and improving teacher quality.

Although the 1998 reauthorization was largely a status-quo piece of legislation, it contains three new initiatives that will require implementation over the next two years.

1. GEAR-UP is designed to improve the chances of the most economically disadvantaged students to enroll in college and complete their degrees by providing a guarantee of future aid and additional support services. The program encourages colleges and universities and middle schools to form partnerships and expands an existing federal-state early intervention program.

2. Learning Anytime Anywhere Partnerships (LAAP) are intended to help stimulate innovation and experimentation by traditional and new institutions in distance-learning opportunities.

3. Teacher-quality initiatives are designed to improve the quality of teaching and to address projected shortages of qualified teachers. The legislation emphasizes the need to address these problems in chronically underserved areas.

All of these new initiatives are predicated on creating partnerships among colleges and universities, public schools, businesses, and community-based groups. The Education Department will award grants through a series of competitions over the next several years to make these various partnerships a reality. A critical factor that will determine the success of these efforts will be how much federal funding they receive. Interest among institutions in these initiatives has been high.

The higher education associations, however, have advocated increased funding for Pell Grants and other existing student-aid programs. In May 1999, the House passed a resolution calling for Congress to increase the maximum Pell Grant award by $400 and to spend more money on campus-based student aid before providing funds for new education programs. How this funding dispute is resolved will largely determine the ability of the new initiatives to spur widespread innovations.

• Federal officials working with the lending community will consider changes in the system of setting student interest rates and lender yields in federal student-loan programs.

In the federal student-loan programs, the federal government sets both the rate of interest for borrowers and the rate of return for lenders. The 1993 legislation that authorized the federal direct-lending program contained provisions that would have altered the formula for determining borrower rates and lender yields, with the result that both the interest rate for borrowers and the lender yield would have been cut substantially.

Lenders fought this approach. The final compromise legislation reduced student interest rates and instituted a set of payments to lenders designed to compensate them for the difference between the new student rates and market rates of return.

Dissatisfaction with this compromise as a long-term solution, however, led Congress to call for further study. A group of government officials, members of the lending community, representatives of interest groups, and others will examine ways to set lender yields and study whether to move to a market-based system for determining lender returns. The study group is scheduled to report over the next two years on these issues.

In the meantime, competition for university participation in either the direct-lending program or the federal loan program run by private lenders and state guarantee agencies shows no signs of abating. Both programs offer incentives for students, such as cuts in loan-origination fees and reductions in payments over the life of the loan.

• Some federal regulations to implement legislation enacted during the 105th Congress will be produced through a process called "negotiated rulemaking."

As with any reauthorization, the 1998 HEA legislation includes various provisions that require Education Department officials to write regulations before the new programs and other changes take effect. These include rules for the operation of the guarantee agencies in the student-loan programs and the length of time students may maintain eligibility for federal student aid. The HEA legislation requires these regulations to be produced through a process called negotiated rulemaking in which affected parties are represented in the negotiations.

Other provisions in recent higher education legislation also raise difficult issues that do not fit within the negotiated-rulemaking process. For example, the 1998 HEA legislation and appropriations contain new requirements governing the operation and discretion of the Fund for the Improvement of Postsecondary Education (FIPSE), an office within the Education Department that sponsors competitions to foster innovation. Traditionally, FIPSE has operated much as a foundation in deciding which institutions will receive funds. Restrictions placed on FIPSE in the 1998 legislation represent a departure from that tradition and raise questions about its ability to remain independent from political pressures.

Reporting requirements were one of the primary concerns of the higher education associations during the debate over tuition tax credits in 1997. The concern was that higher education institutions would be required to provide information on students and their families that in many cases was not available to the institutions, including the Social Security numbers of parents. These and other requirements in the legislation must be resolved over the next several years as the tuition tax credits become available.

For more information on this issue:

ACE materials on negotiated rulemaking at www.ACENET.edu.

Department of Education Web site, www.ed.gov, has information on each of the new initiatives.

5. Federal Support for University Research

Issue at a Glance

Congress will consider the level of funding for university-based research as well as the policies that govern that funding.

- **Strong bipartisan support for university-based research likely will mean more federal funds for some agencies, but spending will increase at a slower rate than in the past.**
- **A new law requiring compliance with the Freedom of Information Act poses a threat to university research, unless amended or modified.**
- **Several key issues will pose challenges to the present system of peer-reviewed, merit-based allocation of research funding in U.S. universities.**

Officials of many research universities have been concerned that the "social contract" that has shaped relations with the federal government since 1945 could evaporate. Based on the premise that Washington will fund research deemed worthy by peer reviewers and that economic growth, better health, and enhanced national security will ensue, this contract has served the nation well. When the GOP took control of Congress in 1994 and promised to cut all federal programs, including those for research, some officials feared the contract could unravel.

But a bipartisan consensus that supports research funding has held steady. Congress has not cut funds for research, except in the humanities. Instead, it has appropriated more money than ever, especially in the biomedical area. Efforts by the Clinton administration to shift future indirect costs of research to universities also were thwarted, as investment in science found widespread public support.

Threats to the system of university-based research today are more on the margin, rather than planned assaults on core funding. They involve a new law that requires disclosure of prepublication research data, an expressed congressional concern that merit-based allocation of research funds unfairly rewards wealthy institutions and areas of the country, and continued use of direct appropriations to circumvent the peer-review process.

• Strong bipartisan support for university-based research likely will mean more federal funds for some agencies, but spending will increase at a slower rate than in the past.

President Clinton proposed to cut total research and development spending by $1 billion or 1 percent in his fiscal 2000 budget. Despite those cuts, the budget would increase funding for basic research by $727 million or 4 percent to $18.23 billion. Of that amount, $15.5 million is designated for university-based research, which represents an increase of about 2 percent over fiscal 1999 and accounts for about 60 percent of all university research. States, industry, and higher education institutions themselves would have to secure funding for the remainder of the budgets.

Under the Clinton spending proposal, funding for the National Institutes of Health (NIH) would be increased by 2 percent to almost $16 billion. This would represent a drop from the year before, when NIH received a 14.1 percent hike. The budget for the National Science Foundation (NSF) would be increased by 8 percent to almost $4 billion. NSF, which funds scientific research across all disciplines save medicine, recently had not seen increases that exceeded inflation—until last year when its budget increased 8.4 percent.

Clinton's budget also proposes to increase the Department of Defense's (DOD) basic research by 0.4 percent to $1.1 billion. Those three agencies—NIH, NSF, and DOD—fund the lion's share of university-based research, although NASA, the departments of Energy, Agriculture, Education, and the National Endowment for the Humanities contribute a small share of the total.

• A new law requiring compliance with the Freedom of Information Act poses a threat to university research, unless amended or modified.

Last year, Congress directed the Office of Management and Budget (OMB) to revise Circular A-110, which governs federally sponsored university research. The purpose was to ensure that all data produced with federal funds is available to the public under the Freedom of Information Act (FOIA).

The new law could put at risk the confidentiality of medical information, national security data, and information containing commercial value. It also would create "a very bureaucratic, legalistic, and expensive mechanism for disclosing research data to the public," according to the president of the National Academy of Sciences.

It is feared that groups opposed to some research would file FOIA requests to slow down or learn as much as possible about a particular project, thereby undermining one of the pillars of science—the right to first publish the fruits of one's labor. A bill has been introduced to repeal the new law, and efforts are under way through the regulatory process to reduce its scope and impact. These efforts are likely to be successful.

• Several key issues will pose challenges to the present system of peer-reviewed, merit-based allocation of research funding in U.S. universities.

Fewer than 200 of the more than 3,500 American colleges and universities are research institutions. Of those, the leading 50 receive about three-quarters of all federal research grants. Pressures from Capitol Hill will continue to grow to make the distribution of federal research dollars more "equitable."

Last year, language was introduced into the NSF appropriations bill instructing the agency to note the imbalance in its distribution of research funds to some universities and to set aside funds for economic development at selected institutions. NSF historically has resisted congressional interference in its allocation of resources. But because most of the current congressional leadership comes from states that do not host the leading 50 research universities, pressure on most research agencies' funding decisions is likely to continue.

The system of allocating federal dollars to research based on peer review and merit has served science and the nation well. However, sophisticated lobbying on the part of some universities has created a climate where research funds increasingly are viewed as subject to the same forces that govern the allocation of other federal funds.

Until the early 1980s there was little or no earmarking of research dollars. Some appropriations subcommittee chairmen, now retired, jealously guarded the principles of peer-reviewed science on the ground that merit-based allocation best served the national interest.

According to the *Chronicle of Higher Education*, however, $270 million was earmarked for universities in 1990, a figure that spiked to $763 million in 1993, before leveling off to around $500 million today. (These figures represent a small fraction of total federally sponsored research.) Most of these funds are not targeted to "have not" institutions. They are directed to universities that use political muscle to advance their aspirations. The problem is compounded by the fact that even as budgets grow, there are little or no funds for investment in new facilities within the peer-review process.

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6. Diversity in Admissions

Issue at a Glance

Colleges and universities face political and legal challenges to their ability to consider race or ethnicity as factors in the admissions process.

- **The rationale of the *Bakke* case—that race may be considered a "plus" factor in admissions—appears increasingly vulnerable.**
- **In national political and legal forums, opponents of affirmative action are engaged in systematic efforts to challenge admissions practices.**
- **Defenders of affirmative action are assembling evidence and rationales to preserve their ability to consider race or ethnicity as admissions factors.**

Race and ethnicity do not figure into the admissions process at most institutions because most colleges and universities admit all or nearly all qualified applicants. The debate about diversity in admissions, therefore, focuses on the nation's most selective undergraduate institutions and postgraduate and professional programs, where competition for scarce spots is acute. For those institutions committed to educating diverse student bodies, the ability to take race or ethnicity into account as one of many factors in admissions has long been taken for granted.

The legal and political foundations of race-sensitive admissions policies recently have been threatened through a series of ballot initiatives and court cases. Such practices have been outlawed by referenda in California and Washington and barred by a federal court in Texas, Louisiana, and Mississippi. Defenders of diversity in higher education are working to identify evidence and arguments to convince the public and the courts that it is important to maintain diversity in student bodies at all levels in higher education and that race-sensitive admissions practices are a permissible way to achieve that goal.

• The rationale of the *Bakke* case—that race may be considered a "plus" factor in admissions—appears increasingly vulnerable.

For more than two decades, colleges and universities have relied on the 1978 Supreme Court case, *Regents of the University of California v. Bakke*, to justify admissions policies designed to achieve diverse student bodies. This case, which challenged medical school admissions policies at the University of California at Davis, allowed admissions officials to consider race a "plus" factor in selecting which students to admit.

Bakke was decided by a deeply divided court. Nine justices issued six different opinions. Citing the importance of university autonomy in academic decision making, Justice Lewis F. Powell found that "the interest of diversity is compelling in the context of a university's admissions program." Although he made clear that racial quotas were unconstitutional, he held that race and ethnicity may be considered as one among many factors in evaluating a student's application.

Although *Bakke* remains in force, its legal standing is fragile because no other justice on the court shared Powell's rationale. It remains unclear whether the current Supreme Court would uphold Powell's reasoning if it were to reexamine the question in the context of a new case.

• In national political and legal forums, opponents of affirmative action are engaged in systematic efforts to challenge admissions practices.

In 1996, a federal appeals court held that the diversity rationale adopted by Justice Powell in *Bakke* was not binding and that colleges and universities in Texas, Louisiana, and Mississippi are barred from considering race or ethnicity in admissions. The Supreme Court declined to consider an appeal of the case, thus allowing the ruling in *Hopwood v. State of Texas* to stand.

Also in 1996, voters in California approved Proposition 209, which states, "The state shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting." The effect of the vote was to prohibit the consideration of race or ethnicity as factors in admissions at public higher education institutions in California. In November 1998, voters in Washington state approved a ballot initiative identical in language to Proposition 209.

Other challenges are pending. The University of Michigan currently faces two court challenges—one to undergraduate and the other to law school admissions policies. *Gratz v. Bollinger*, which is scheduled for trial in 1999, almost certainly will be appealed by the losing party and could provide the opportunity for the Supreme Court to reconsider *Bakke*.

At the center of affirmative-action challenges is the Center for Individual Rights, a public-interest law firm in Washington, D.C. It has supported ballot initiatives and lawsuits across the country and urged students who believe their institutions are using unlawful racial preferences in admissions to sue. Florida, Michigan, Texas, and North Carolina are likely targets for ballot initiatives.

• Defenders of affirmative action are assembling evidence and rationales to preserve their ability to consider race or ethnicity as admissions factors.

Until recently, the debate about diversity in college and university admissions has had little empirical grounding on either side. Last year, however, former Harvard President Derek Bok and former Princeton President William Bowen (now president of the Mellon Foundation) published *The Shape of the River*, a study that focused on the undergraduate admissions process and subsequent life experiences of 45,000 students of all races who entered 28 selective colleges and universities in fall 1976 and 1989. The study concluded that the recruitment of diverse student bodies has produced concrete educational benefits for white and minority students alike—and that many arguments about the harmful effects of race-sensitive admissions are without basis in fact.

Tied closely to the admissions-preferences issue is how colleges and universities are using standardized test scores in deciding whom to admit. Opponents of affirmative action generally say test scores are crucial determinants of merit and should be a major criterion in the admissions process. Defenders believe too great a reliance on test scores is unfair. They say some tests are biased and that low-income and minority students are less prepared to take such exams.

The U.S. Department of Education's Office for Civil Rights has proposed guidelines that suggest colleges and universities that make the SAT and ACT the primary basis for admissions and financial-aid decisions may be in violation of federal anti-bias laws. The guidelines say that tests that have a "significant disparate impact" on any racial, sexual, or ethnic group may violate the law unless they are "educationally necessary" and no alternative form of assessment meets the institution's needs and would have less of a disparate impact. Colleges routinely use standardized scores as part of the admissions process because of the wide variation in high school course offerings and academic rigor.

At the heart of the debate is the desire of colleges and universities to determine their own admissions policies and practices consistent with their missions in a culturally diverse, democratic society.

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7. Information Technology and New Competition

Issue at a Glance

Increasingly sophisticated uses of information technology will force public and private institutions to respond to competition from for-profit higher education providers and from their peers.

- **States have accelerated their planning and policy initiatives for information technology.**
- **State and federal financial commitments to information technology are likely to enjoy continued political support.**
- **Federal student-aid rules will need to be rethought for distance learners whose circumstances are significantly different from those of traditional college students.**

Information technology has changed the method, content, and cost of delivering education to increasing numbers of students. Traditional colleges and universities now offer thousands of courses via the Internet, and state and federal governments are supporting efforts to integrate technology into many aspects of higher education. For-profit providers are making significant inroads into the higher education marketplace. Policymakers will need to determine whether to protect state and nonprofit institutions or to provide greater opportunities to for-profit providers of higher education.

Faculty members are showing enthusiasm for incorporating new technology into their teaching, research, and public-service activities. And as institutions race to innovate, software companies with a range of products—from electronic formats to tools that instruct teachers how to teach online—are angling for a share of this lucrative market.

The infusion of new technology into the curriculum is raising sensitive issues among administrators and professors. While some administrators contend that institutions should retain all rights to online courses, professors who develop the courses argue that they own such rights. At Drexel University, for example, an administrator has asserted that the university should own all rights to online course materials but share the profits with professors who developed them. Some professors say they will refuse to take part in distance-learning efforts if they have to give up ownership of their courses.

Despite issues of ownership rights, development costs, and course content, educators foresee a bright future for the marriage of information and technology in academia.

• States have accelerated their planning and policy initiatives for information technology.

Policymakers recognize that the information technology revolution is affecting all aspects of American life and must be fully incorporated into the fabric of higher education. A recent survey by the State Higher Education Executive Officers (SHEEO) documents widespread development of technology plans and accompanying policy changes. Thirty-one states reported a formal technology plan or lead agency in planning technology.

As distance learning becomes a more common component of higher education, the public can expect states to position their institutions to compete more effectively with private and out-of-state providers. In addition, intense competition is forcing software companies and other educational providers to employ heavy marketing strategies for a piece of the action in the distance- education business.

• State and federal financial commitments to information technology are likely to enjoy continued political support.

Many states are beginning to earmark significant levels of funds for hardware, software, and faculty-development initiatives. The recent SHEEO survey identified at least 25 states that appropriated more than $340 million in funds for technology in 1998. Kentucky, for example, established a $9 million "Technology Trust Fund," while Illinois allocated

nearly $37 million to higher education institutions for technology-related initiatives. Oklahoma, Iowa, and Utah continue to make substantial investments in networks—usually in partnership with the private sector—to equalize the price of connectivity between urban and rural areas.

At the federal level, much of the recent support for education has flowed through the "E-rate" program that subsidizes school and library connectivity to the Internet. The National Science Foundation has provided seed money for continued development of Internet2, which connects major research universities. In addition, Congress has authorized $10 million for the "Learning Anytime Anywhere Partnerships" program. The money will be used to promote partnerships between academic institutions, community-based organizations, software and technology developers, and private industry to research how technology can enhance the delivery of education to distance learners.

For its part, the Clinton administration has proposed a $366 million investment in information technology research for fiscal 2000, a 28 percent increase. Roughly 60 percent of the funding will go toward university-based research. A report by the Presidents' Information Technology Advisory Committee called for strong and sustained investment in information technology.

• Federal student-aid rules will need to be rethought for distance learners whose circumstances are significantly different from those of traditional college students.

The "traditional" college student—18 to 24 years old, living on campus or at home, and taking courses in a classroom setting—now represents a minority of all students. But federal student-aid rules were designed with these traditional students in mind. The likely rapid growth in the number of distance learners will intensify the need to revise federal student-aid rules.

One alternative is for the federal government to consider distance learners and traditional students the same for the purposes of eligibility. Federal aid thus would cover living costs, tuition, and other fees. A different approach would deny distance learners all forms of federal aid. Advocates say such students do not qualify for aid on the traditional basis of seat hours and classroom time. The federal and state governments will continue to wrestle with these questions over the next two years and beyond, but compromise seems inevitable. Students enrolled in at least several distance-education courses may be denied the full range of benefits but still may be eligible for a substantial amount of aid.

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8. Economic and Financial Trends

Issue at a Glance

Although a robust economy has produced prosperity for higher education in the late 1990s, few states and institutions seem prepared for the possibility of a recession and its consequences.

- **The current federal budget surplus may have little effect on patterns of federal spending for higher education.**
- **The economic boom has spurred more state spending for higher education and has helped to slow the rate of tuition growth.**
- **Most states and institutions have failed to plan for the possibility that the economy will not continue to flourish.**

The sturdy national economy that has lasted for much of the 1990s has produced prosperity for American higher education. Public colleges and universities are pocketing additional aid from states with bulging coffers, and private institutions are seeing substantial growth in their endowments and in competition for admissions. But these economic good times cannot be expected to last forever. Should the economy falter as a result of a global economic crisis or a downturn in the stock market, many institutions would have to face the possibility of cutting back programs, faculty, and staff. In the event of a recession, federal budget stringency once again would become the norm.

Given how states finance higher education, a cutback in aid to colleges and universities would result in tuition hikes to fill the budget gaps. This has occurred in each of the last three recessions. Private institutions also would be affected by a slowdown in the economy because of stunted growth in their endowments and a potential decline in family incomes. Institutions should begin to explore how to minimize the impact of a future recession.

• The current federal budget surplus may have little effect on patterns of federal spending for higher education.

A growing economy increases federal revenues from a wide array of taxes and reduces the need to spend money on such social programs as unemployment insurance and welfare. The booming economy, coupled with important policy decisions, has shifted the federal budget debate from how to cut deficits to how to spend the surplus.

Both political parties agree that the largest portion of the projected surplus should be reserved for Social Security reform. This seems appropriate since the excess of Social Security revenues over expenditures is the primary reason for the federal budget surplus.

In addition, a Medicare-reform package is still possible during the 106th Congress, despite the failure of a blue-ribbon commission to gain consensus. Implementation of the Balanced Budget Act of 1997 has had negative consequences for university teaching hospitals. They continue to suffer reductions in federal subsidies because of congressionally mandated cutbacks in Medicare reimbursements. What's more, economic changes emanating from the movement to managed care have caused major shortfalls in operating budgets at many teaching hospitals. For example, greater scrutiny from health maintenance organizations and their insurers cause delays or reductions in patient reimbursements. Unless Congress responds to these concerns and restores part or all of the Medicare cuts, the situation will only grow worse.

Tax cuts also are a high priority, with Republicans preferring across-the-board rate cuts and Democrats leaning toward more targeted cuts. Compromise is likely, with targeted tax cuts that focus on such Republican priorities as elimination of the so-called marriage-tax penalty folded into a package of Clinton administration favorites.

In this environment of budget surpluses, it is reasonable to assume the funding caps still in place from previous budget-balancing efforts will be lifted. Spending on education and defense appears to be a

high priority for both parties. Thus, some increase in funding for federal higher education programs is a distinct possibility, particularly in 2000 as the presidential campaign unfolds. Presidential elections often are highly correlated with dramatic funding increases in high-visibility education programs. In 1996, for example, Pell Grant funding was increased to allow for a 10 percent increase in the maximum award despite the prevailing budget deficit.

It also is possible that the budget surplus will *not* yield greater funding for higher education, particularly in 1999. Although education remains a high priority, K-12 education is likely to receive most additional federal funding. Defense spending priorities also will affect the extent to which Congress relaxes existing limits on domestic spending.

Predictions of greater spending and deeper tax cuts are predicated on continued growth in the economy. A recession will scuttle these plans and could leave in place the existing spending limits. A *major* recession will lead to even tighter spending limits than those already in place. Even without a recession, the president and Congress may decide to use the projected surpluses to retire some of the multitrillion-dollar federal debt instead of increasing spending limits or cutting taxes.

• The economic boom has spurred more state spending for higher education and has helped to slow the rate of tuition growth.

Historically, state funding for higher education has been influenced more by economic conditions than by federal spending patterns. The current economic boom has allowed many public institutions to resume hiring faculty and administrative staff after years of cutbacks and budget stringency. On average, states increased their funding to higher education by 6.5 percent in fiscal 1999.

An easy cash flow has allowed many colleges and universities to be more generous in their contract negotiations with faculty and other staff. A few states, including California, Massachusetts, and Virginia, have used increased state funding of higher education to allow for freezes or even reductions in tuition. If the economy continues to improve, other states may follow suit. More public institutions will increase their budgets, and more states will freeze or reduce tuition and fees.

• Most states and institutions have failed to plan for the possibility that the economy will not continue to flourish.

According to financial analyst Hal Hovey, most states still have structural deficits—that is, their tax structures will not support current funding levels if the economy falters. A recession would reveal these structural deficits in glaring ways because the spending hikes and tuition freezes undertaken during the boom would result in mass layoffs, salary cuts, and tuition hikes.

Few public institutions are seriously considering the need to prepare for the next economic slump. Free-spending during economic good times often leads to cuts when hard times hit. Although state financial officials typically are reluctant to leave reserves in institutional accounts, they could take various steps to minimize the impact of a downturn. In addition to holding funds in escrow to avoid layoffs and reduce the need for tuition hikes, state officials could establish reserves to curb the rapid growth in spending that is now occurring.

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9. Creating a Sustainable Society and Future

Issue at a Glance

Higher education will be expected to play a stronger role in state and federal efforts to sustain the nation's natural resource base and protect the environment.

- **Creating a sustainable future has emerged as a major issue on the strategic agendas of an increasing number of states and state-based organizations.**
- **The Clinton administration has proposed new federal initiatives to create "livable communities" and address sustainability issues.**
- **Higher education will be expected to provide greater leadership on quality-of-life issues, environmental problems, and the nation's declining natural resource base.**

A sustainable society is defined as one that satisfies its needs without jeopardizing the prospects of future generations. It attempts to achieve growth and development without undermining the resources on which future prosperity depends. "Sustainability" is a nonpartisan issue, and its advocates include leaders from state and local government, the business and corporate community, grassroots organizations, and in increasing numbers, leaders in academe.

In the move toward a sustainable society, colleges and universities increasingly will be asked to play a stronger role on a number of critical public-policy issues. These include preservation and conservation, protecting biodiversity, revitalization of inner cities and rural communities, global climate change, and the need for renewable resources. The pressure will come from grassroots organizations as well as elected leaders and policymakers.

• Creating sustainable communities and a sustainable future has emerged on the strategic agendas of an increasing number of states and state-based organizations.

Often thought of as implementers of federal laws and regulations in such areas as clean air and water, several states on their own are pursing enlightened policies on sustainable growth and development.

An increasing number of states are investing in land-acquisition programs that promote economically and environmentally beneficial development, according to a report from the National Governors' Association. These "smart growth" strategies require coordination between federal, state, and local governments. And the Western Governors' Association adopted a set of principles in an effort to resolve difficult environmental challenges through a doctrine of balance and stewardship. The goal of the principles is to develop new tools for resolving environmental problems with greater innovation, broader participation, and fewer delays.

That these bipartisan organizations of governors would release such statements is evidence of the elevation of the issue of sustainability on the strategic agenda of states, 11 of which recently passed land-use legislation. In addition, nearly 200 "open space" and related initiatives were on the November 1998 ballot in states and localities, and 70 percent of them were approved.

• The Clinton administration has proposed new federal initiatives to create "livable communities" and address sustainability issues.

Despite some opposition and skepticism in Congress, the Clinton administration has proposed spending $10 billion for grants and bonding authority for states and communities to preserve green space and farmland, reduce traffic congestion, protect water quality, clean abandoned industrial sites, conduct land-use planning, and develop public-education programs. Similar initiatives have been introduced on both sides of the aisle, and they will likely continue regardless of who is elected president in 2000. In addition, the President's Council on Sustainable Development, composed of leading corporate, citizen, and government leaders, hosted a national town

meeting on sustainability that included discussions of the role of colleges and universities.

• Higher education will be expected to provide greater leadership on quality-of-life issues, environmental problems, and the nation's declining natural resource base.

While many issues compete for higher education's attention, advocates argue that "sustainability" demands more concerted attention because colleges and universities bear a moral responsibility to increase awareness, knowledge, skills, and values needed to create a just and sustainable future. Two new national organizations are working toward these ends, University Leaders for a Sustainable Future and Second Nature.

Several colleges and universities already are providing assistance and direction on sustainability. Some have been at the forefront of solving local, regional, national, and worldwide environmental problems. Many offer outstanding programs and conduct critical research in environmentally related fields. Some notable examples:

• Clemson University, the University of South Carolina, and the Medical College of South Carolina are engaged in a collaborative effort aimed at challenging traditional environmental, economic, and social activities at higher education institutions. The schools have incorporated principles of sustainability into their curricula and are attempting to reduce the environmental "footprint" associated with university operations. The effort may be an attractive model replicable in other states.

• Tufts University has played a leadership role in environmental education and research nationally and internationally. Through a grant from the Environmental Protection Agency, Tufts recently reduced the adverse affects of the university on the air, water, health, and safety of the local environment. Officials examined practices concerning food waste, transportation, energy efficiency, procurement, disposal of hazardous materials, composting, and recycling, while also reducing costs to the university.

• Lehman College of the City University of New York has built environmental partnerships with community groups in the Bronx to protect open space and revitalize dilapidated areas. The college created an interdisciplinary studies program in environmental policy that incorporates 13 different academic disciplines, including the physical sciences, sociology, philosophy, and literature. The president and the provost have championed the efforts.

Several colleges and universities have included language in strategic plans or mission statements that articulate the institution's role in sustainability and environmental education and strive to link academic capacity to public-policy formulation. These institutions recognize sustainability has three public-policy facets:

1. ensuring that the campus operates in an environmentally friendly manner;
2. providing research, technical assistance, and forums for public debates in local communities, states, and depending on their mission, nationally and internationally; and
3. revising academic programs to prepare ecologically literate students and citizens, provide faculty with the appropriate rewards to develop curricula, and create partnerships with K-12 education to enhance environmental education.

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10. Rethinking Public Higher Education Systems

Issue at a Glance

States will continue to be interested in the governance and finance of their public higher education systems and seek ways to encourage efficiency, productivity, and accountability while keeping costs reasonable.

- **States will continue to seek ways to align university governance with state needs and resources.**
- **The governance of community and technical colleges will continue to be explored as states seek to create responsive, nimble two-year systems.**
- **States will seek fairness in university finance, moderation of college costs, and financial incentives to improve institutional performance.**

Despite relatively strong economies, states are showing a keen interest in higher education governance, finance, and performance. In some states, the cost of public higher education is still a hot topic. Many governors and legislators have proposed reforms, and 13 states have asked blue-ribbon commissions or special legislative task forces to review public higher education or a specific segment of public institutions. This trend is likely to continue, with more states examining higher education's role in economic growth. At the same time, political leaders will continue to press for increased efficiency, accountability, and effectiveness.

• States will continue to seek ways to align university governance with state needs and resources.

Of the recent state review commissions, the eight were concerned with governance and effectiveness, and seven were concerned with cost, affordability, and state finance (some commissions explicitly addressed both). Two reviews also delved into faculty work and tenure. On the one hand, such reviews are an indication that political leaders view higher education as a strategic asset critical to the future of the state. On the other, this may indicate dissatisfaction or disquietude regarding higher education's leadership on key issues: costs, tenure, governance, resource equity among institutions, and responsiveness to overall state needs. Although most examinations are a positive exercise and lead to compromises or solutions that policymakers and educators can embrace, the tone of any commission deliberation can turn negative.

Some of these special commissions and some legislatures will propose greater centralization of governance structures. Others will decentralize by creating local boards within university systems or separating one or two campuses from a university system. Progressive states will adopt more open, competitive structures that are less concerned about academic program duplication than with creating financial incentives for institutional collaboration to meet state priorities. Competition among institutions, spurred by outside education providers and an increasing reliance on new technologies, will conflict with public-policy needs for state coordination and central planning.

Greater fiscal flexibility and management autonomy for colleges and universities seem a certainty in several states, particularly where university leaders can make the case for greater efficiency through enhanced freedoms—for example, in controlling faculty contract negotiations at the campus level. Some states may choose to recreate their university systems as public corporations.

Preserving the distinct missions, unique academic programs, and financial viability of less competitive institutions will be a challenge. Tensions may build as policymakers seek to protect less competitive public and private institutions that are at risk of losing market share. Even though university systems and state higher education agencies will have a difficult role and balancing act to perform, state policymakers are likely to look first to them for leadership in planning and coordinating the uncertain and challenging environment ahead.

• The governance of community and technical colleges will continue to be explored as states seek to create a responsive, nimble two-year systems.

Kentucky, Kansas, and Louisiana have followed the lead of other states by instituting major structural changes in community and technical colleges either by reorganizing or creating new governance structures. Many other states are likely to conduct similar examinations and attempt to exert greater control over their two-year systems. Goals include building stronger relationships and better articulation between the two-year and four-year sectors. At the same time, however, some states—particularly those with growing numbers of students—will be pressed to allow some two-year institutions to offer baccalaureate degrees. This will exacerbate any existing tensions between two-year and four-year schools unless state authorities can manage the process effectively.

• States will seek fairness in university finance and financial incentives to improve institutional performance.

In regard to higher education finance, the questions state policymakers and special review commissions have been asking are about costs and affordability, funding equity among state institutions, and institutional performance tied to funding.

With higher education budgets in relatively good shape, fairness in allocating funds among institutions has become an issue, particularly for institutions experiencing enrollment growth. Cognizant of the success of such states as Florida, which created institutional "tiers," some state policymakers are considering policies to protect the resource base of institutions, seek equity in allocating funds, and restrict the ambitions of other institutions. Other states, notably Maryland and Michigan, will consider creating funding formulas or funding floors to distribute state dollars more equitably. These actions attempt to move debates about funding out of the legislatures' annual budget processes, where the clout of institutions varies.

States will continue to increase the use of incentive or performance funding. Such systems use indicators or benchmarks to leverage institutional behavior and ensure accountability. According to the State Higher Education Executive Officers, 38 states require performance measures. Nine states tie the measures directly to the funding process, but an indirect link is made in the process in nearly all other states. Although South Carolina has backed away from its intent to fund 100 percent of institutional budgets on performance, strong sentiments remain in state houses to award significant portions of higher education funding based on demonstrable outcomes.

For more information on this issue:

Burke, Joseph C. "Multicampus Systems: The Challenges of the Nineties." In Gerald Gaither, ed. *The Multicampus System: Perspectives on Practice and Prospects*. Sterling, Va.: Stylus Press, 1999.

Langenberg, Donald N. "On the Horizon: The Learning System." In Gerald Gaither, ed. *The Multicampus System: Perspectives on Practice and Prospects*. Sterling, Va.: Stylus Press, 1999.

National Center for Public Policy and Higher Education. *Higher Education Governance: Balancing Institutional and Market Influences*. November 1998.

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